

THE SMALL BUSINESS ADVOCATE

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Vice President Albert Gore (L) and SBA Administrator Aida Alvarez (R) unveiled the second annual report on the implementation of recommendations from the 1995 White House Conference on Small Business. See story on page 4.

Regulatory Agencies

Advocacy *Amicus* Filing Takes On Mining Regulation

For the first time in more than a decade, the SBA's chief counsel for advocacy has filed as *amicus curiae* in a federal case, supporting a group of small businesses that brought suit against the Bureau of Land Management (BLM) to enjoin enforcement of a new regulation that they contend will have a detrimental effect on them. The *amicus curiae* memorandum of law was filed by the Office of Advocacy on Jan. 7, 1998, in a case that is currently pending before the U.S. District Court for the District of Columbia, *Northwest Mining v. Babbitt*.

In its *amicus* filing, the Office of

Advocacy argued that the rule should be remanded because of the Bureau of Land Management's non-compliance with the Regulatory Flexibility Act (RFA). "BLM has provided an irrational and defective basis for concluding that the regulation would not have a significant economic effect on a substantial number of small businesses," argued the chief counsel. "The Court should remand the regulation for further deliberations."

Specifically, Advocacy challenged the agency's failure to use the proper size standard for defining a small miner and its failure to provide a rational economic basis

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Chief Counsel's "In Box"

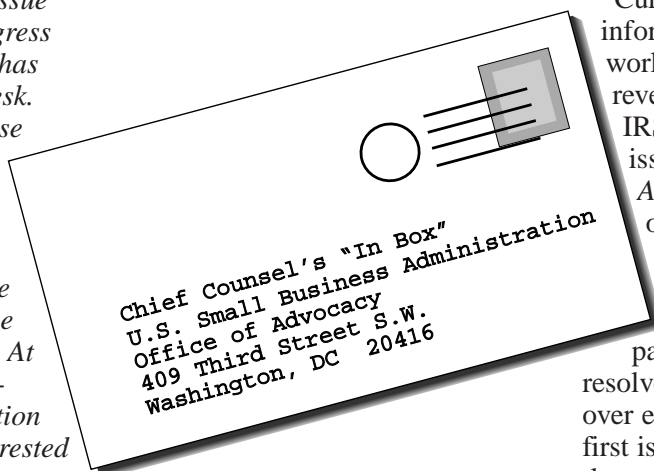
Q: *I am writing on behalf of small businesses throughout Minnesota to request your help in resolving the issues surrounding the definition of "independent contractor." As you know, independent contractor clarification was the top priority of the delegates to the 1995 White House Conference on Small Business. Legislation addressing this issue has been introduced in Congress regularly; however, nothing has made it to the President's desk.*

Earlier this year, the House of Representatives included clarification language in its omnibus tax legislation. The Senate had no similar provision. Both the Senate and the President said that the House approach was unacceptable. At the same time, they acknowledged that clarifying legislation is needed and urged the interested parties to work together on a compromise.

The Minnesota small business community would like the SBA to convene and mediate the discussions necessary to resolve issues regarding the definition of who is and is not an independent contractor. Ideally, we would like legislation that minimizes the paperwork and reporting requirements for businesses who wish to function as independent contractors while at the same time prohibiting corporations from making unilateral decisions that turn workers into independent contractors. I am confident that language consistent with our vision can be drafted; however, it will take dedicated leadership.

I am a member of the American Institute of Certified Public Accountants. We worked very hard to come up with a potential compromise on this issue over two years ago. We need your leadership and a listening audience to bring about real resolution to this much

This month: When will the status of "independent contractor" be clarified?



needed issue clarification. In each of the last three years, there has been an attempt to pass independent contractor legislation. It has failed because there has been no effort to bring the various parties together to resolve their differences.

A: The SBA's Office of Advocacy has been actively involved in advocating that the definition of "independent contractor" be simplified and clarified so that small business owners can know what is expected of them. Working with the delegates to the 1995 White House Conference on Small Business, the Office of Advocacy has helped arrange meetings with the Treasury Department, the Internal Revenue Service, and the AFL-CIO, and recommended witnesses for appearances before the relevant committees in Congress in an effort to find some points of agreement.

In recent weeks, leaders in the House and Senate have indicated

that they would like to bring up the independent contractor issue again in a new tax bill that Congressional leaders are promising for 1998. In the meantime, discussions are going forward with interested groups on each side of the issue to continue to seek common ground on the issue.

Currently, the best source for information on classification of workers is the training manual for revenue agents published by the IRS (see the March/April 1997 issue of *The Small Business Advocate* for more information on this manual).

The Internal Revenue Service has also established two programs to help tax-paying businesses quickly resolve differences with the IRS over employee classifications. The first is a special "classification settlement program" that, in cases where the taxpayer was acting in good faith, can dramatically reduce the penalties involved. The second is a quick appeals process that can go forward for a determination on employee classification even while other issues are still being discussed. This helps the taxpayer get a quick, clear indication of the strength of the original classification.

Please be assured that we will continue to work with all the parties to resolve this issue.

Do You Have a Question?

Do you have a question for the Chief Counsel for Advocacy? Address letters to: "In Box," Chief Counsel for Advocacy, U.S. Small Business Administration, Mail Code 3114, 409 Third Street S.W., Washington, DC 20416.

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To Our Readers:

This January/February 1998 issue of The Small Business Advocate is the first since the September/October 1997 issue, numbered vol. 16, no. 6.

Beginning with the March 1998 issue, The Small Business Advocate will resume a monthly publication schedule.

Amicus, from page 1

for its certification that the rule would have no significant economic impact on them. The Bureau utilized a size definition found in the Omnibus Budget Reconciliation Act of 1993 instead of the SBA's definition of a small miner, as required by the RFA. Advocacy argued that by using the inappropriate size standard, the Bureau of Land Management may have underestimated the effects of its rule on small businesses.

In its filing, Advocacy also argued that the rule was arbitrary and capricious because differing and contradictory size definitions were used in the certifications that were found in the final rulemaking and the determination of effects. Advocacy further argued that the rule should be remanded because the economic impact statement lacked a rational basis.

This filing marks the first time since the passage of the RFA in 1980 that the SBA's chief counsel for advocacy has fully exercised his right to appear before a federal court to present the views of small entities. Although the chief counsel has filed to intervene on other occasions, the Office of Advocacy was always able to settle the RFA issues out of court.

Amicus curiae is Latin for "friend of the court." An *amicus* filing is an unsolicited legal document that can be used by a court for guidance on issues where the filer — who is not technically a party to the litigation — may have special knowledge that could be helpful to the court in deciding a particular issue in a case.

The Regulatory Flexibility Act granted the Office of Advocacy the right to intervene as *amicus curiae* when it was first promulgated in 1980. Those rights were expanded in 1996 with the passage of the Small Business Regulatory Enforcement Fairness Act (SBREFA). Whereas the original RFA granted

the SBA's chief counsel for advocacy the right to appear as an *amicus curiae* to present the views of small entities in any action brought in a court of the United States to review a rule, the law as amended by SBREFA allows the chief counsel to present his views with respect to the compliance with the RFA, the adequacy of the rulemaking record, and the effect of the rule on small entities. This expansion was particularly important given the fact that SBREFA also amended the Regulatory Flexibility Act to allow small entities to seek judicial review of a federal agency's compliance with certain provisions of the act.

The *Northwest Mining* case challenges a rule promulgated by the U.S. Department of the Interior's Bureau of Land Management that imposes a bonding requirement on hardrock mining. The rule was originally proposed in 1991 (published in the *Federal Register* in July 1991 at 56 FR 31602), and was finalized in 1997 after significant change (the final rule was published in the *Federal Register* on Feb. 28, 1997 at 62 FR 9093, and became effective March 31, 1997).

For More Information

To receive a copy of the text of the chief counsel for advocacy's *amicus* filing in *Northwest Mining v. Babbitt*, contact Anita Drummond at (202) 205-6531 or via e-mail at anita.drummond@sba.gov.

To see the text of the chief counsel's testimony of June 19, 1997, before the House of Representatives on this same issue, go to <http://www.sba.gov/ADVO/laws/testimony/hardrock.html>.

"A Record of Success" Says Latest Report on White House Conference

Two years after they left its final session in Washington, D.C., the delegates to the 1995 White House Conference on Small Business can point to an unprecedented record of success in implementing their 60 final recommendations, says a report just published by the SBA's Office of Advocacy.

According to the report — *Building the Foundation for a New Century*, the second annual report to Congress and the President on implementation of the recommendations of the 1995 White House Conference on Small Business — 86 percent of the recommendations put forth by delegates to the conference have had meaningful action taken in whole or in part. Previous White House Conferences on Small Business, held in 1980 and 1986, registered implementation rates of 66 percent and 43 percent, respectively.

"For the past two years," said Chief Counsel for Advocacy Jere W. Glover, "the staff of the Small Business Administration have worked closely and continuously with the White House, the Congress, and nearly every federal agency to respond to the delegates' proposals. Eleven bills have been signed enacting the ideas generated by the delegates. We are pleased with the significant progress that has been made."

Noting that the theme of the conference was "Foundation for a New Century," Alan Patricof, chairman of the White House Conference on Small Business Commission, said that "the efforts of the more than 2,000 delegates to implement their recommendations have shaped the public policy debates in Washington. The delegates have stayed committed and have enhanced the role of small business for the new century."

In a White House ceremony held this past November in honor of the

"Eleven bills have been signed enacting the ideas generated by the delegates. We are pleased with the significant progress that has been made."

— Jere W. Glover,
Chief Counsel for Advocacy

60th anniversary of National Small Business United, Vice President Al Gore, SBA Administrator Aida Alvarez, and Chief Counsel Glover unveiled the second-year report. Vice President Gore noted that

A Record of Success

Legislation implementing recommendations of the 1995 White House Conference on Small Business.

1997:

- Balanced Budget Act
- Taxpayer Relief Act

1996:

- Small Business Regulatory Enforcement Fairness Act
- Small Business Job Protection Act
- Health Insurance Portability and Accountability Act
- Economic Growth and Regulatory Paperwork Reduction Act
- Telecommunications Act
- Federal Acquisition Reform Act
- National Securities Markets Improvement Act
- Small Business Programs Improvement Act

1995:

- Small Business Lending Enhancement Act

"This administration has taken the recommendations seriously and acted enthusiastically, and this effort is paying off for the small businesses of America."

The report offers details on the major legislative and administrative actions taken since 1995 in each of the 11 issue areas identified by the delegates to the conference. These include the passage of landmark tax reform legislation (the Taxpayer Relief Act of 1997), the expansion of small businesses' voice in federal regulatory proceedings (the Small Business Regulatory Enforcement Fairness Act of 1996), and an overhaul of the federal procurement system (the Federal Acquisition Reform Act of 1996).

In addition to detailing the progress made in these issue areas, *Building the Foundation for a New Century* includes reports on the regional implementation activities undertaken by delegates in their home states, as well as a report on their December 1996 Strategy Summit held in Washington D.C.

How to Get the Report

Copies of *Building the Foundation for a New Century* are available for purchase from the Superintendent of Documents at (202) 512-1800. Ask for document number 045-000-00280-2. The cost is \$4.25 each, postpaid. The Superintendent of Documents may also be reached at its Web site <http://www.gpo.gov>.

The report is also available on microfiche from the National Technical Information Service (tel. (703) 605-6000; ask for document no. PB98-114580) and from the Office of Advocacy's Internet home page at <http://www.sba.gov/ADVO/>.

Small Business and the Year 2000 Challenge

by Terry Bibbens

The clock striking midnight on December 31, 1999, will be a cause for celebration of the 21st century for almost everyone in the world — except for those computer programmers who have not yet fixed the “millennium bug” for their customers. The date “01/01/00” will be read by some computers as “1900” rather than “2000,” or, in some cases, as some other date that depends upon a software program written years ago.

The millennium bug, or year 2000 challenge (also known as the “Y2K” problem), is real, and considerable press has been devoted to this issue. Congressional hearings and governmental task forces have been established to review the progress and provide solutions.

The vast majority of businesses in the United States employ fewer than 20 employees, and it is reasonable to assume that these smaller businesses use personal computers running off-the-shelf commercial software. For these companies, the year 2000 challenge is almost assuredly a non-issue, since it has been solved by their computer manufacturers and software developers. According to both Microsoft and Apple Computer, their software programs already address the year 2000 challenge as do third-party software packages developed to their standards. (Both companies provide advice on their Internet pages to help their customers determine if they have a problem; see the sidebar on page 6.).

However, for small companies that use mainframe computers and older software, the year 2000 challenge is an issue that needs their attention. A reasonable estimate is that about 20 percent of the 526,000 U.S. companies that

The arrival of the new millennium has the potential for disrupting computer operations on older systems. Here's some information on what small businesses can do about it.

employ between 20 and 500 employees have older mainframe computers to provide accounting and manufacturing control systems. That means about 100,000 small and medium-size businesses will have a real year 2000 problem — not a small number.

The three most popular computer mainframe systems for small businesses were supplied by International Business Machines (IBM), Digital Equipment Corporation (DEC), and Hewlett-Packard (HP). The software was provided by a variety of vendors. These computer manufacturers and the software vendors for the most popular accounting and manufacturing/inventory systems have recognized their responsibilities to their customers and are implementing solutions for retrofit. For small companies that use these computers and software packages, the solution to the year 2000 challenge is to obtain and install the software and hardware upgrades and revisions on the schedules recommended by their vendors.

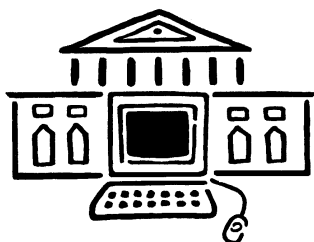
Small companies that use mainframes that were installed before 1980 will almost assuredly encounter year 2000 problems. These companies must develop solutions for their systems or be faced with very real computer errors or cata-

strophic shutdowns as January 1, 2000 nears. If their vendors are no longer around, or cannot provide solutions for the hardware or software developed specifically for the small company, then the company must engage a consultant to evaluate its situation.

Fortunately, there are a number of companies available to help in the diagnostic analysis of the problems. Unfortunately, the problem is complex and expensive for those small companies with older mainframe computers and legacy software systems — particularly those designed specifically for companies using COBOL and other older software languages. By their very nature, these companies are small, with small staffs. Usually they do not have the resources of a management information systems or chief information officer staff. Often the installation of the mainframe and software was performed by experts hired on a task basis. The current financial and manufacturing officers may not understand the intricacies of the computer systems.

According to experts, one of the problems with the year 2000 challenge is that the data corruption may have already begun. New orders entered into older manufacturing or accounting systems for delivery after January 1, 2000, may have already corrupted the data and introduced some serious problems: parts may not be ordered, or may be duplicated; parts received may or may not be credited into the inventory for long-lead time deliveries; shortages may be reported when the parts are in stock (or may not be in house when the systems report them available); and invoices may not be printed for parts received and accepted. Companies

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Look for the Advisor at <http://www.business.gov>



The U.S. Business Advisor is a project of federal agencies in coordination with the U.S. Small Business Administration and the National Performance Review.

should be on the lookout for these occurrences and ensure that their staffs cross-check the computer-generated forms.

The solution to the year 2000 challenge for those companies that must evaluate their legacy systems without the benefit of the services of the original software system designer may be very expensive. In fact, it may prove necessary, or at least most cost-effective, to replace the older, legacy systems with new accounting and/or manufacturing systems. The cost of analyzing software programs that are more than 10 to 15 years old may be more

than the price of a new computer with modern software. And new systems may dramatically improve the efficiency of the company — as well as provide a solution to the year 2000 problems.

Whatever the solution to the year 2000 challenge chosen by small business owners, it will better to select it with full knowledge rather than to have it thrust upon them as the millennium begins.

Terry Bibbens is the Office of Advocacy's entrepreneur in residence.

Do You Have a Y2K Problem?

Small companies that know, or suspect, that they have a "Year 2000" problem may want to consult some of the resources that have become available on the Internet.

The Small Business Administration has established a Y2K site at <http://www.sbaonline.sba.gov/hotlist/year2000.html> that offers a multitude of links to related sites.

Many companies have also established Y2K sites. Among them are several mentioned in this story, including Microsoft (<http://www.microsoft.com/cio/year.asp> and <http://www.microsoft.com/CIO/Articles/YEAR2000FAQ.htm>); Apple (<http://macos.apple.com/macros/2000.htm>); Digital Equipment Corp. (<http://www.digital.com/info/year2000/y2k-oz.htm>); and Hewlett-Packard (<http://www.hp.com/ibpprogs/gys/advantage/dec96/news/2.html>).

The U.S. General Services Administration has also posted useful Y2K information on its information technology site at <http://www.itpolicy.gsa.gov>.

Vendors doing business with the federal government will especially want to check this site.

For broad research on this topic, use the Internet search engines and look for "Y2K."

News Flash for ACE-Net Users

Companies interested in raising up to \$1 million in equity capital should check out the ACE-Net Internet home page (see <http://www.sba.gov/ADVO>) for information on a new, streamlined procedure that permits their securities offering to be listed in up to 18 states with a simple ACE-Net short form.

ACE-Net — the Angel Capital Electronic Network — is the Internet-based service initiated by the SBA's Office of Advocacy that is designed to connect small businesses with potential "angel" investors.

Multiple Toll-Free Numbers A Crime, Says FCC

Do you use more than one toll-free number in your business? Does your company broker numbers in this growing new business field? Did you know it may be a crime? Did you know that your carrier is required to terminate your service if you are presumed to be guilty?

A new rule adopted on April 11, 1997, by the Federal Communications Commission (FCC) broadly bans these legitimate, thriving business practices. In response, the Office of Advocacy filed a petition to rescind the rule because of the FCC's failure to explain the public interest served by destroying hundreds of small businesses and banning current business practices. The December 12, 1997, filing by the Office of Advocacy outlined numerous concerns, including the

FCC's failure to comply with the amended Regulatory Flexibility Act (RFA). The RFA requires agencies to analyze the significant economic impact of new regulations on small businesses and consider alternatives that would minimize the burden.

Advocacy harshly criticized the FCC, indicating that this rule would:

- criminalize the legitimate use of multiple toll-free numbers by end-users, such as retail and mail-order firms, direct mail advertising services, commercial publishers, and telemarketing companies;
- destroy hundreds of new businesses that are offering toll-free services on the secondary market;
- minimize competition and drive up the cost of toll-free numbers by eliminating choice;

- prohibit the private sale of a toll-free number used by one business to another business that prefers the number; and

- give toll-free carriers unrestricted power to terminate a subscriber's service without giving subscribers an opportunity to defend themselves.

To see the Office of Advocacy's filing with the FCC, go to Advocacy's Web site at <http://www.sba.gov/ADVO/laws/comments/rfr97.html>.

For questions about the filing, contact S. Jenell Trigg, assistant chief counsel for telecommunications in the Office of Advocacy, at (202) 205-6532.

News Briefs

SBDC Meeting in Colorado Draws Over 1,000 Attendees

The Association of Small Business Development Centers (ASBDC) held its annual conference Oct. 9–11, 1997, in Keystone, Colo. The conference, sponsored by Microsoft, IBM, and Inc. Business Resources, drew a record attendance — 1,030 counselors and directors of Small Business Development Centers (SBDCs) and more than 30 exhibitors.

"The SBDCs are going to play a vital role in providing small businesses with information about interactive systems such as *PRO-Net* and *ACE-Net*," said the SBA's Chief Counsel for Advocacy Jere W. Glover in his address to the attendees.

The SBDC program — a cooperative effort of the SBA, the educational community, and federal, state, and local governments — delivers up-to-date counseling,

training, and technical assistance in all aspects of small business management.

The purpose of the conference's agenda was to update SBDCs on such subjects as credit analysis, community revitalization, SBA loan programs, welfare-to-work initiatives, government relations, and franchising.

The SBDC program has grown tremendously since 1977, when it was launched as a pilot program with just nine centers. Today there are more than 1,000 service locations. The program is the SBA's largest management and technical program, serving more than 500,000 small businesses annually. Counselors have a business background and educational credentials to support their ability to provide advice to small firms. Additionally, most SBDC teams include profes-

sional business consultants.

Expertise is provided in many areas that are key to successful business, including business organization, financing, production, marketing, and technology. The SBDCs also provide assistance regarding international trade, procurement, venture capital formation, and rural development. In fiscal year 1997, SBDCs handled almost 624,000 cases.

"This conference was a huge success," said Jim King, the newly elected ASBDC president. "I want to especially thank the SBA for its continuing support. Without the SBA, none of us would be here."

For more information on the SBDC program, or to find the center closest to you, visit the SBDC homepage at <http://www.sbaonline.sba.gov/sbdc/>.

One Million and Counting: New Data Show Small Businesses' Role in Job Creation

Small firms with fewer than 500 employees created 92 percent of the net new jobs between March 1992 and March 1993, and the smallest employers (those with one to four employees) were the most prolific, generating 55 percent, according to a new Census data base under development by a team of economists led by the Small Business Administration's Office of Advocacy. These numbers mean more than 1 million of the 1.9 million net jobs created during this time period were in firms with one to four employees.

"It doesn't surprise us — we've been saying it all along," said Chief Counsel for Advocacy Jere W. Glover about the findings, "but it is gratifying to know that the Census data agree: when it comes to job creation, the very smallest firms cut the widest swath, generating more than half of the new jobs. Employment in these small firms grew 20.9 percent, compared with just 0.4 percent employment growth in large firms with more than 500 employees."

This data base marks the first time that the Bureau of the Census has joined forces with the SBA to present data supporting claims that small businesses are leading the way in job growth.

The data set is the first U.S. government longitudinal job creation data available by firm size for the entire U.S. economy. It represents a breakthrough in the quality of such data and provides a solid basis for comparing the performance of the small business sector with that of the rest of the economy. Detailed data tracking employment of each U.S. business for 1990 to 1995 will be available for more extensive

Small businesses are leading the way in job creation, according to newly available numbers from a joint SBA-Census research effort.

analysis at the Census Bureau's Center for Economic Studies in 1998. These data sets promise to shed new light on an old controversy: just what role do small firms play in the job creation process?

While existing small firms created the bulk of new jobs, start-ups were responsible for creating over 350,000 jobs above and beyond jobs lost due to firm closures.

Most of the net employment growth — 76 percent — was in the service sector. Of the 509,164 net

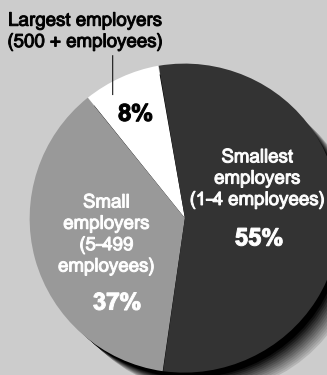
new jobs created by new firms in the service industry, 302,900 were in small firms, many in highly paid health, business, management and computer services. But even in manufacturing, where employment has been declining overall, small firms grew 2.5 percent, and those with fewer than five employees increased their employment by 29.1 percent, while large firms lost 1.3 percent of their employees.

Small firms dominated employment growth across the spectrum of industries. Of the 10 industry groups with the largest employment increases, small firms led the job creation in eight, including six of the seven top service industries — personnel supply, home health care, management and public relations, nursing and personal care facilities, miscellaneous business services, and computer and data processing services. Even in hospitals, a service industry dominated by large businesses, small firms increased their employment by 40.9 percent. In eating and drinking places and management and public relations industries, small firm gains offset large firm job losses.

Small firms also gained jobs in four of the ten industry groups that lost the most jobs. In commercial banking, for example, small firms increased their employment by 8.9 percent, even though the industry posted a net loss of 58,992 jobs. In telephone communications, small firm job increases of 45.4 percent helped offset the net job loss. The same can be said for the fire, marine, and casualty insurance industry and the search and navigation equipment industry, where small firms increased employment while the industries as a whole lost jobs.

Small Is Big

Net job creation by business size,
March 1992 – March 1993



Source: U.S. Small Business Administration,
Office of Advocacy.

The new data also shed light on small business contributions to dynamic change in the economy through job reallocation. The turnover rate — the proportion of jobs that were either created or lost in a year — is 36.5 percent in small firms. Without this dynamic change, the American economy would have less flexibility, and less ability to reallocate resources to more productive uses.

For more than a year, the SBA's Office of Advocacy has been working closely with researchers, statisticians, and economists at the Bureau of the Census to forge a federal longitudinal firm size data base for the entire U.S. economy.

Dr. Zoltan J. Acs, chief economic advisor, and Catherine Armington, special consultant to the Office of Advocacy, have led the effort. They will be joined by Bureau of the Census Chief Economist John Haltiwanger in the initial study of 1990–1995 business dynamics at the Census Bureau's Center for Economic Analysis.

“For the first time, comprehensive Census data can be used to examine the dynamics of the business population and its employment contributions by firm size,” said Chief Counsel Glover. “The further development and analysis of this data base will be invaluable to both economists and policy makers.”

For More Information

Dynamic data on employment change by firm size that is described in this article is available on the Office of Advocacy's Internet home page at http://www.sba.gov/ADVO/stats/int_data.html.

Small Business Sector of the 50 States Profiled in New Publication

The latest economic statistics on the small business sector of the U.S. economy at the state level are now available to the public with the publication of the latest, 1997 edition of *Small Business Profiles*. Produced by the SBA's Office of Advocacy, the *Profiles* are a collection of three- and four-page statistical portraits of each of the 50 states and the District of Columbia.

Drawing on a wide range of statistical sources — from business data collected by the Bureau of the Census, to employment data collected each year by the U.S. Department of Labor, to a groundbreaking study of bank lending produced by the Office of Advocacy — the *Small Business Profiles* provide a unique economic portrait of the small business sector of the economy within each state.

“The *Small Business Profiles*,” said Chief Counsel for Advocacy Jere W. Glover, “are the only documents published that give such a rich and detailed portrait of each

state's small business sector. They show the importance of small business to the economic lifeblood of each and every one of the states.”

The information for each state published in the individual state profiles includes such baseline economic data as:

- the number of small businesses,
- small business income,
- the number of minority- and women-owned small businesses,
- the number of jobs created by small firms by industry,
- the top small business lending banks, and
- the fastest growing industries.

Published on an annual basis for several years, the Office of Advocacy's *Small Business Profiles* have established themselves as the standard statistical reference source for small business information on the state level.

How to Get Copies

The individual state profiles that comprise the 1997 *Small Business Profiles* are available on the Office of Advocacy's Web site at <http://www.sba.gov/ADVO/stats/profiles/>.

Paper or microfiche copies of the complete 50-state set of *Small Business Profiles* are available for purchase from the National Technical Information Service, 5285 Port Royal Road, Springfield, VA 22161; telephone (703) 605-6000, TDD (703) 487-4639. Ask for publication no. PB98-117971. The cost is \$35 for a paper copy, \$14 for a microfiche copy, plus postage and handling.

Special Feature

In Search of Good Numbers: Two Decades of Small Business Data

by Catherine Armington

Some 20 years ago the American public was amazed to learn that during the 1970s small businesses accounted for 80 percent of the net increase in jobs in the United States. Today, policy makers and the public are still surprised to learn that analyses by the Office of Advocacy show that nearly 92 percent of recent job growth was generated by small firms.

Under a directive from Congress, the SBA's Office of Advocacy develops data for monitoring the growth of small businesses and analyzing how small firm behavior and performance differ from that of large businesses. Over the last two decades the methods for and sources of small business analyses have changed, but the results are clear — small businesses drive job growth.

In the Beginning

David Birch, a professor at the Massachusetts Institute of Technology, completed a path-breaking analysis on small businesses using Dun & Bradstreet data. Birch tracked changes in employment in 8 million businesses and found small businesses — those with fewer than 500 employees — accounted for only 50 percent of the total private employment but generated 80 percent of new jobs in the 1970s.

Why was this such a surprise? Because there had never before been any comprehensive measure of changes in employment of firms that were small. Indeed, most estimates of changes in employment were based primarily on surveys of large firms, and small firms were assumed to follow the same patterns. Data on small firms were col-

That small business accounts for most new jobs came as a surprise 20 years ago. Here's the story on why, and how, the Office of Advocacy has played a vital role in this search for reliable numbers on small business.

lected by the Bureau of the Census only every five years, and did not cover most of the service industries.

The astonishing findings about small firms' job creation placed a spotlight on small business. As small business received increasing attention, there was broad awareness, based primarily on anecdotal evidence, that the small business sector was not only contributing significantly to job generation in the United States, but also to innovation and international competitiveness. Policy-makers and researchers all needed data to answer many questions about the distribution and dynamics of small businesses. To help foster and maintain small business research and statistics, the Office of Advocacy was created in 1976 and it continues to serve as an independent, credible resource.

Advocacy's Current Small Business Statistics

The Office of Advocacy must maintain useful data on small business for policy-makers to identify emerging small business trends and oversee federal regulations' impact on small firms. In the early 1990s, the Office of Advocacy began a contract with the Bureau of the

Census to compile firm data annually from Census' *County Business Patterns* data. This data base covers all establishments and includes statistics by industry on employment, payroll, and annual revenues. Among other things, the Office of Advocacy and federal agencies use this information to fulfill their responsibilities under the Regulatory Flexibility Act. Advocacy reviews federal agencies' economic analyses to determine if agencies have adequately assessed the impact of regulations on small firms. To effectively do this, it relies on small business distribution, payroll, and revenue data.

To make the data easy to use, the Census Bureau prepares extensive summary tables by industry classification and by state and metropolitan areas. Most of the data are available on the Internet (see box on this page), and the Office of Advocacy has produced a CD-ROM containing extensive data for 1991 through 1994, with an expanded update planned for future release. While these tables, produced periodically by the Bureau of the Census, are widely used for describing the small business sector in relation to large businesses and for evaluating the changes in these distributions, they cannot track changes in individual small businesses or industries.

Tracking Changes in Small Businesses

Observations about individual establishment activities over time, including employment and payroll changes, require multi-year data for each firm. In the fall of 1996, the Office of Advocacy initiated a project to determine how to track small

firm growth and job creation. (See related article on page 8 of this issue.) Advocacy staff became temporary "special sworn employees" of the Census Bureau so that they could access confidential data to better understand available firm information. The job generation project builds on much of the earlier experience of small business data construction. It reveals many aspects of the dynamics of different size firms, including their establishments and employment changes. The Bureau of the Census has implemented and tested these specifications, producing job generation tables for 1992–1993, with updates on the way for 1994–1995.

Small businesses are the nation's most prolific job creator. The last two decades of small business data, regardless of the source — Dun & Bradstreet, the Bureau of Labor Statistics, or the recent Census data — confirm this conclusion. The 1992–1993 Census job creation data especially make the point, showing small businesses contributing 92 percent of new jobs. Each successive data base for analysis of job changes confirms the same basic patterns among small businesses — but with more confidence in the underlying detailed data, and more understanding of the dynamics of businesses and their employment.

For example, between 1992 and 1993, while total employment increased a modest 2.1 percent, and the share of employment in small firms (those with fewer than 500 employees) increased from 53.0 percent to 53.1 percent, the small-firm sector showed much more activity and much higher growth in employment.

Data analysis reveals small firms accounted for nearly 92 percent of all job growth from 1992 to 1993. Employment growth was almost 1.8 million in new and existing small firms in 1992, while large firms generated only about 0.1 million

The Basic Arithmetic

Change in employment by firm size, 1992–1993 (millions of jobs)

	Small firms (1–499 employees)	Large firms (500+ employees)
1992 employment	49.2	43.6
Net change due to firm expansions, contractions, births, and deaths	+ 1.8	+ 0.1
Net changes due to firm size reclassifications	– 0.7	+ 0.7
1993 employment	50.3	44.4

Source: U.S. Small Business Administration, Office of Advocacy.

new jobs. Because many of these small businesses expanded, approximately 700,000 jobs in firms classified as small in 1992 were reclassified as large-firm jobs by 1993.

Advocacy is the Guardian of Small Business Statistics

Investigating possible sources for small business data in the 1970s, Advocacy quickly learned that small business statistics were not easy to find. The office began tapping existing sources of government and private data to track small business job creation and growth. Advocacy found that:

- Although both the Internal Revenue Service and the Bureau of Labor Statistics collect data quarterly on all businesses with employees, federal regulations protecting confidentiality prevented the use of these data by most other agencies.

- The Bureau of the Census found the job of collecting and organizing data every five years for Enterprise Statistics too expensive and time-consuming to do more frequently. It was not interested in trying to track all establishments and firms so that changes in small firm employment could be measured.

- Millions of tiny businesses — partnerships and sole proprietors

without employees, part-time and home-based — were not listed in any business register or phone book and did not report their incomes separately on tax returns. Even estimating the number of such tiny businesses would be difficult.

- Among private providers of business data, Dun & Bradstreet had the most comprehensive data base, covering, in the late 1970s, more than 5 million businesses with employees.

With limited data, the Office of Advocacy relies on each of these resources and extrapolates small business statistics. In the end, the office leverages its resources to improve collection methods and delineate useful data on small businesses growth. The Office of Advocacy continues to be the guardian of small business statistics. Without vigilance, small business statistics would be hard to find.

Catherine Armington is an economic consultant to the Office of Advocacy on small business measurement and data.



✓ *hold these dates . . .*

***December 9 and 10, 1998,
when the Office of Advocacy hosts***

Vision 2000: The States and Small Business Conference

- ✓ Learn about programs and policies that foster small business development.
- ✓ Hear about “models of excellence” — the programs that have helped small business the most.

Scheduled to be held in Washington, D.C.

Look for details in future issues of
The Small Business Advocate.

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